

Breaking the World Bank



Olivia James

In 1944, when delegates from 44 nations met at Bretton Woods, New Hampshire, to create the World Bank, they dreamed of an institution that would rebuild war-ravaged Europe, reduce poverty, and help further peace. In 1946, the World Bank opened for business, but its attention soon shifted from reconstructing Europe to fostering economic development in poor nations. Over nearly 50 years, the World Bank has extended \$300 billion in loans worldwide to pay for 6,000 development projects such as roads and dams, mostly in developing nations. By 1993, the bank provided about \$23 billion in loans annually. Although one might expect these nations to feel a debt of gratitude to the World Bank, currently 130 international organizations are running a vigorous public campaign against the institution. Using the slogan "50 Years Is Enough," campaign leaders argue that many World Bank loans and policies have done far more harm than good, fostering environmental destruction, social disruption, and increased poverty.

Help or Hindrance?

World Bank defenders argue that the institution has delivered on much of its initial promise. "In country after country, the World Bank has made a difference," writes Henry Owen, senior consultant to Salomon Brothers and co-chair of the U.S. Bretton Woods Committee, in the September/October 1994 issue of the journal *Foreign Affairs*. "In many regions, the Bank's projects clearly have helped. Per capita income in both rich and poor people has substantially increased in the countries that have received the most Bank aid."

But critics of the World Bank are lobbying for reductions in American financial

support of the institution. "We want no more funding for the World Bank until it proves it can be a positive force," says Steve Hellinger, executive director of the Development Group for Alternative Policies, a nonprofit organization based in Washington, DC, which is spearheading the 50 Years Is Enough campaign.

American taxpayers' largest recent contribution to the World Bank was \$1.85 billion in 1993. These funds were provided to the International Development Agency (IDA), an arm of the bank that offers inexpensive loans to the poorest nations. Now the Clinton administration is asking Congress to provide another \$1.85 billion.

World Bank defenders argue that it is an integral part of building damaged economies. Today, the bank contributes financing to rebuild South Africa's private sector, weakened after international anti-apartheid boycotts. The bank is also helping former communist Eastern Europe, including the Czech Republic, Hungary, Poland, Slovakia, and Slovenia, to embrace market economies and democracy.

Poland, in particular, has benefited from World Bank aid. "Poland was facing a lot of problems" after the communists left power, Owen says. "It had high inflation, runaway wages, but in one year, with financial stabilization by the International Monetary Fund, and funds to build infrastructure from the World Bank, Poland is a success story."

In a sense, the reconstruction of former communist economies returns the bank to its roots, the rebuilding of Europe. The vast majority of the World Bank's greatest accomplishments and biggest failures, however, have occurred in developing nations.

The bank's successes include easing hunger in poor countries during 50 years of explosive population growth and political turmoil. Since the Bank's beginnings, for example, it has contributed financial and technical assistance to the "green revolution" in agriculture, an initiative that began in the late 1940s to develop higher-yielding crops and better irrigation techniques for Third World farmers. Higher-yielding varieties of wheat and rice helped nations such

as Pakistan, Turkey, Indonesia, Malaysia, Sri Lanka, and Mexico to build up food supplies.

Another notable success story is the bank's bolstering of India's agriculture to help that nation become agriculturally self-sufficient in the 1960s. The World Bank provided large-scale financial and technical assistance to encourage farmers to plant new crop varieties. As a result, India doubled its wheat crop between 1966 and 1972. The bank also helped India to build an infrastructure for food reserves and distribution. Today, the bank continues to fund and coordinate research and development of new technologies around the globe, especially in agriculture. In June 1994, the bank agreed to spend \$100 million over two years to fund projects at the Consultative Group on International Research, a consortium of 18 agriculture research centers around the world studying new strains of crops, such as drought-resistant corn.

But critics question whether the World Bank has been effective in reducing poverty, considering the vast sums it loans. The number of desperately poor worldwide remains high. More than one billion people still live in severe poverty, with per capita incomes of less than a dollar a day, according to World Bank figures.

Furthermore, the World Bank has clearly made mistakes in funding projects that ended up damaging living standards and the environment in some developing countries. In one famous case, the bank loaned Brazil \$443.4 million between 1981 and 1983 to build highways into the nation's northwestern rainforests and to establish 39 rural settlement centers to attract settlers. Settlers were supposed to raise tree crops, such as coffee and cocoa for export. But the government failed to help the settlers with promised agricultural extension services and credits, and the settlers, in desperation, began burning down trees to grow annual crops such as beans and maize. A few years later, when the nutrient-poor land was exhausted, the settlers were forced to abandon the ruined sections of forest.

For years, the World Bank failed to pay

enough attention to the environmental and social consequences of its policies, experts say. And too often the bank ignored the voices of local people. When the World Bank has helped to build hundreds of dams, power plants, and other projects in some developing nations, residents have been displaced from their homes without compensation for resettlement and driven into poverty, critics say. For example, coal mining and power plant projects in Singrauli, India, uprooted 200,000 people without compensation.

In the early 1980s, the World Bank began requiring that governments have a resettlement compensation program. Yet governments still fail to provide people with enough money to resettle, experts say. "The problem is that the bank must work with all kinds of governments," says retired World Bank Chief Economist Barend de Vries. In many cases, these governments can be incompetent, repressive, and corrupt.

"I'd be wrong to say that we've been brilliant in the area of resettlement," says Jocelyn Mason, environmental policy analyst at the World Bank. "Resettlement is very difficult; improving resettlement is an urgent priority."

Bank Organization

The United States and other wealthy nations actually support a minor portion of World Bank loans. The bank is a semi-independent arm of the United Nations that supports most of its projects by borrowing on the capital market; that is, the bank reinvests funds. It issues bonds and then loans investors' money to developing countries.

The bank is run jointly by representatives of donor countries and nations that receive the loans. It has 176 member nations, but voting shares are weighed in proportion to a nation's contributions to the bank. The United States is the largest donor and the bank's most influential member, with about 18% voting power.

The World Bank has three components. The largest part is the International Bank for Reconstruction and Development, which provides interest-bearing loans to moderate-income nations such as Brazil. Second, the International Development Agency makes below-market-rate loans to the poorest nations; the IDA generally loses money on these transactions, so they must be supported by the United States and other wealthy nations. Third, the International Finance Corporation's loans promote private-sector development and assist corporations that invest in developing nations.

The bank also works closely with the International Monetary Fund (IMF), another creation of the 1944 Bretton Woods conference, to help stabilize or reconstruct struggling economies. The bank is a powerful attractor of capital. It not only lends billions

of dollars to developing countries, but its loans can legitimize projects, helping to draw additional funds from regional development banks, aid agencies, private commercial banks, and national governments.

Economic Policies and Environmental Consequences

In recent years, the World Bank has played a controversial role in pressuring struggling economies to address runaway inflation and growing debt. Bank supporters argue that these economic reforms, called "structural adjustment," eventually provide more jobs and raise living standards. Critics say that structural adjustment often increases poverty and damages environmental and human health.

Under the conditions of structural-adjustment loans, nations may be required to privatize state-held industries, reduce regulations that inhibit commerce, promote exports, restrain wages, and cut state budgets. In addition, nations are usually required to remove inefficient subsidies on crops, energy, water, and other resources.

For most of its history, the World Bank placed no conditions on a nation's economic policy. But in 1980, the bank gave its first structural-adjustment loan to reduce the impacts of an international oil crisis on developing nations. Since then, the World Bank has worked closely with the IMF to encourage governments with inflation and debt-ridden economies to reduce bureaucratic expenditures.

The success stories of structural adjustment include Brazil, Argentina, and Thailand, which experienced hyperinflation,

with prices and wages rising astronomically during the 1980s. "The purpose of structural adjustment is to reduce inflation by reducing government deficits," says Owen. "You must follow strict fiscal and monetary policies. It hurts everybody over the short term—the poor, middle-class, and rich. But over the longer term, you see higher living standards and faster rates of economic progress."

However, Bruce Rich, senior attorney with the Environmental Defense Fund and author of the 1994 book *Mortgaging the Earth: the World Bank, Environmental Impoverishment, and the Crisis of Development*, argues that in the 1980s, "the impact of these policies on the poor in many countries was devastating: real wages dropped, and government health and education services were slashed." Today, about one-fourth of bank loans have structural-adjustment conditions, according to Rich.

Steve Hellinger of the Development Group for Alternative Policies says that structural adjustment abruptly opens up economies, leading to rapid extraction of natural resources, just as environmental ministries are being cut. "You see countries not enforcing environmental regulations under structural adjustment." In addition, small farmers abruptly taken off crop subsidies or other subsidies may be forced into poverty.

"In Africa, weak governments facing a lot of internal strife could not make the adjustments" to freer markets, agrees de Vries. He adds that in most countries, the poor, especially in urban areas, were hurt by cutbacks in government expenditures and by increases in food prices when crop and other subsidies disappeared. However, de Vries notes that

Banking on the Environment

The World Bank is not the only institution doling out the dough for environmentally related firms and projects worldwide. In a survey of 177 investment and commercial banks around the world by the United Nations Environment Programme (UNEP) and Salomon, Inc., 31% of respondents said they loan or invest in environmentally related firms today and almost three times that number said they expect to in the next 15 years.

Although these findings may mean good news for the environment, the optimism should be cautious. According to the survey, nearly half of respondents do not monitor or evaluate environmental risks after funding is committed; 46% of respondents do not stay current on environmental policies and practices in other countries; and, with respect to environmental liability, loan contract terms and conditions related to borrowers' performance and activities are not used by 45% of responding banks. However, most respondents did predict that over the next five years they are likely to add environmental criteria to all procurement decisions and become more involved in resource reduction, energy conservation, and recycling.

In announcing the survey results at the United Nations headquarters, UNEP Executive Director Elizabeth Dowdeswell said, "The thousands of investment and loan decisions made each day at financial institutions have a profound effect on our planet's environmental condition. Fostering informed and responsible policies and practices in the financial services sector is essential if we are to ensure that development takes place in an environmentally sustainable manner."

The UNEP will hold an expanded roundtable on commercial banks and the environment in Geneva in October.

governments with stronger bureaucracies, such as those in Latin America, have generally fared better under structural adjustment. Since 1990, the bank has redesigned structural-adjustment loans to lessen the impact on the poor, de Vries adds.

The bank now includes safety nets to the poorest people in structural-adjustment loans, including phasing out subsidies more slowly, according to Mason.

Bank Reform

In 1987, the World Bank initiated a major effort to bring environmental and social concerns into each aspect of its work, according to a 1994 World Bank report, *Making Development Sustainable*. Over the past several years, the bank has sought to reduce environmental damage and social dislocation caused by its policies. In addition, the bank began emphasizing lending for environmental protection, health, and education. In fiscal year 1994, the World Bank lent more than \$2.4 billion for environmental programs in developing countries, about 10% of its total loans.

The bank is now working with non-governmental organizations to reduce the adverse impacts of its projects. "The World Bank has very talented, relatively progressive economists who are really trying to change, to work more closely with local people," says Orrin Kirshner, economist with the Institute for Agriculture and Trade Policy, a nonprofit organization based in Minneapolis, Minnesota.

The World Bank's activities to protect and enhance the environment are based on a four-part agenda, according to the bank's *Making Development Sustainable* report. First, the bank is working to help countries set priorities, build institutions, and implement programs for sound environmental stewardship. "In some developing countries, you can have very limited government capacity," says Mason. "Many countries, for example, don't have environmental monitoring capacities, and the bank helps government agencies develop those."

The bank also advises former communist-block nations, which historically neglected environmental protection. "In Poland and Hungary, just two examples, you have tremendous, varied problems to address, so where do you start?" asks Mason. "A nation in that situation can't afford to address everything right away. So we encourage countries to establish priorities. Then, through technical assistance, we help countries set environmental standards that are clear and scientifically based. We help with data collection. And we help governments create conditions so they can reach the stakeholders who will be affected by regulations."

Second, the bank aims to expand the role of environmental assessments in reduc-

ing the environmental impacts from bank-financed projects. Today, nations receiving loans must make environmental assessments on each project, which must be approved before the project can move forward. But those responsible for assessments leave a project once it is underway. Now the bank is examining how to expand the role of the environmental assessment throughout the design and construction of a project, according to Mason.

Third, the bank is helping countries understand the links between reducing poverty and protecting the environment. Today, in many developing nations, poverty creates higher fertility rates, because families believe they must grow larger in order to survive. But as populations grow, they put greater pressure on natural resources and in turn increase poverty. The bank is attempting to break this cycle by reducing poverty through health and nutrition and family-planning programs. In addition, the bank provides accessible credit to the rural poor and improves living conditions with clean water and sanitation.

Fourth, the bank aims to address global environmental challenges through participation in the Global Environmental Facility (GEF). The World Bank administers the GEF in cooperation with the U.N. Development Programme and the U.N. Environment Programme. The GEF is the primary funding mechanism for research and education on climate change, biodiversity loss, and depletion of ozone. Furthermore, the GEF runs environmental programs in international waters, including the Mediterranean Sea and the Baltic Sea.

In 1995, GEF approved \$60–80 million in grants for a program that would help phase out ozone-depleting substances in Eastern Europe. Also in 1995, GEF allocated about \$220 million to fund research and education on climate change and biodiversity issues.

Still, these new programs and reforms are not coming quickly enough for critics, who say that the bank still makes too many errors and misjudgments. Critics point out that the bank's record in funding well-designed development projects actually worsened after it started on an environmentally friendlier direction in 1987.

Bank reviews, conducted by its own Operations Evaluation Department, found that 30.5% of its development projects—dams, roads, and power plants—were failures in 1989. That is, the projects did not live up to their own goals such as reducing poverty without damaging the environment. Yet by 1991, the percentage of unsatisfactory projects had increased to 37.5%.

But defenders say the World Bank should not be punished for examining its own effectiveness. "You must give the bank

credit for looking at its own successes and failures," says de Vries. He adds that many bank loans have failed because the institution has historically taken on innovative projects. "The bank has a healthy degree of risk and is constantly trying new things, and when you take many chances you are likelier to fail."

"It's extremely difficult to do successful development, and the standards by which the bank's Operations Evaluation Department judges projects are quite high," says Mason. "There are a large number of objectives to meet, and if a project is not successful in all of its components, parts of a project can still be a success. Just because the Operations Evaluation Department considers projects unsatisfactory does not mean they are disasters."

Nevertheless, in 1993, the bank announced a policy agenda, *Getting Results*, with the aim of making development projects more effective. In this agenda, World Bank President Lewis T. Preston declared that the bank would more rigorously assess the development impacts of projects before loans are given.

Furthermore, over the past two years, the World Bank has strived to improve its projects by reaching out to local people, acknowledging that affected parties should have a voice in the development process and should be able to receive important bank documents. In January 1994, the bank issued a new policy on disclosure of information. Through a new information office, nongovernmental organizations can now get environmental assessments and other documents on projects likely to have significant environmental impacts.

In 1993, the bank also established an independent inspection panel to strengthen the institution's accountability. The panel can investigate claims of people who charge that their interests have been damaged by bank projects and that the bank has not followed its own policies when implementing or appraising projects.

The World Bank has highly skilled economists and other professionals who have proven that they want to learn from their mistakes. With the bank's financial resources and access to information, these professionals will be needed to help developing nations cope with unforeseen changes in the environment and the international economy. But the World Bank must continue to work more closely with local people to ensure that they have a voice in deciding which projects will help improve their economies and protect their natural resources.

John Tibbetts

John Tibbetts is a freelance journalist in Charleston, South Carolina.